

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC PRIORITY 2434
TREASURY DEPT WASHDC PRIORITY
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AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
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USEEC ALSO FOR EMBASSY
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DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JAN. L8 - 24

SUMMARY: BRITISH INFLATION EDGES TOWARD SINGLE DIGITS IN
THE NEXT MONTH OR TWO AS THE MONTHLY RATE OF RETAIL PRICE
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INCREASE REMAINS ABOUT 0.5 PERCENT. CONSUMERS INCREASED
THE REAL VOLUME OF THEIR EXPENDITURE IN THE FOURTH QUAR-
TER. UNEMPLOYMENT CONTINUED AT 6.0 PERCENT IN THE MONTH
TO MID-JANUARY. STERLING EXPERIENCED A CALM WEEK ON THE
FOREIGN EXCHANGE MARKETS WHILE STERLING M3 ROSE 1.0 PER-
CENT IN THE LATEST BANKING MONTH. END SUMMARY.

1. RETAIL PRICES. THE OFFICIAL FORECAST OF THE END-YEAR RISE IN RETAIL PRICES WAS CONFIRMED. THE INDEX OF RETAIL PRICES (JAN. 1974 EQUALS 100) ROSE 0.5 PERCENT IN DECEMBER TO 188.4. THIS BROUGHT THE L2-MONTH INCREASE TO 12.1 PERCENT, THE LOWEST IN OVER THREE YEARS. THE ANNUALIZED RATE OF CHANGE OVER THE PAST SIX MONTHS WAS 5.2 PERCENT, THOUGH THIS RISES TO 7.2 PERCENT WHEN SEASONAL FOODS ARE EXCLUDED. THESE FIGURES BECOME MORE STARTLING WHEN COMPARED WITH THE AVERAGE RATE OF CHANGE IN PRICES BETWEEN 1976 AND 1977 WHICH WAS 15.9 PERCENT. LOOKING FORWARD, FACTORS LIKELY TO INFLUENCE THE MOVEMENT OF THE INDEX OVER THE NEXT QUARTER INCLUDE THE RECENT CUT IN THE MORTGAGE INTEREST RATE, HIGHER MILK PRICES AND RAIL FARES, AND THE IMPENDING DEVALUATION IN THE GREEN POUND WHICH TRANSLATES EC SUPPORT PRICES INTO DOMESTIC FOOD PRICES IN THE U.K. BRITAIN HAS REQUESTED PERMISSION TO DEVALUE THE GREEN POUND BY 7.5 PERCENT, A MOVE CALCULATED TO ADD ABOUT 1.5 PERCENT TO FOOD PRICES AND ABOUT 0.4 PERCENT TO RETAIL PRICES DURING THE COURSE OF A FULL YEAR. NEVERTHELESS, THE 12-MONTH INCREASE IN RETAIL PRICES SHOULD REACH SINGLE DIGITS IN THE NEXT MONTH OR TWO.

2. CONSUMER EXPENDITURE. REAL CONSUMER EXPENDITURE ROSE DURING THE FOURTH QUARTER. THE INITIAL ESTIMATE (1970 PRICES) OF CONSUMER EXPENDITURE INDICATES A RISE OF 0.5 PERCENT FROM THE THIRD QUARTER. IT SHOULD BE NOTED THAT

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THE AVERAGE ERROR IN THE INITIAL ESTIMATE IS 0.035 BILLION POUNDS. THE FOLLOWING TABLE SETS OUT THE MOST RECENT QUARTERLY DATA (ALL FIGURES ARE IN BILLIONS OF POUNDS - L970 PRICES):

	PERCENT CHANGE
FROM L2 MONTHS EARLIER	
1976 I 8.829	L977 I 8.761 -0.8
II 8.797	II 8.665 -1.3
III 8.880	III 8.796 -1.0
IV 8.899	(PROV.) IV 8.840 -0.7

FOR THE YEAR AS A WHOLE CONSUMPTION DROPPED 1.0 PERCENT FROM ITS 1976 LEVEL. THE DATA INDICATES THAT CONSUMPTION BEGAN TO RISE IN THE THIRD QUARTER OF 1977, IN ALL LIKELIHOOD BUOYED BY A TAX REBATE AND LOWER WITHHOLDING RATES. THE SHARP THIRD QUARTER RISE WAS NOT SUSTAINED IN THE FOURTH QUARTER WHEN SPENDING ON FOOD ROSE WHILE OTHER

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AREAS SHOWED LITTLE CHANGE IN VOLUME EXCEPT FOR ALCOHOLIC
BEVERAGES AND MOTOR VEHICLES WHERE EXPENDITURE DECLINED
IN REAL TERMS.

3. UNEMPLOYMENT. UNEMPLOYMENT WAS VIRTUALLY UNCHANGED
IN JANUARY. SEASONALLY ADJUSTED AND EXCLUSIVE OF SCHOOL
LEAVERS, THE NUMBER OF JOBLESS IN THE U.K. ROSE A SCANT
300 TO 1,428,400 (6.0 PERCENT) FROM THE DECEMBER FIGURE O
1,428,100 (6.0) PERCENT). THE UNADJUSTED FIGURES ROSE BY
67,722 TO 1,548,544 (6.5 PERCENT). THE NUMBER OF REGIS-
TERED VACANCIES ROSE SHARPLY TO 182,800 (S.A.), A RISE OF
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20,200 FROM DECEMBER. THIS INCREASE IS THREE TIMES LARG-
ER THAN THE TYPICAL MONTHLY CHANGE IN VACANCIES AND MAY
REFLECT A FAULTY SEASONAL ADJUSTMENT. THE JANUARY UNEM-
PLOYMENT FIGURES MARK THE FOURTH SUCCESSIVE MONTH DURING

WHICH THE RATE HAS REMAINED VIRTUALLY UNCHANGED AT ABOUT 6.0 PERCENT. WITH MANUFACTURING OUTPUT LIKELY TO HAVE BEEN FLAT OR EVEN SLIGHTLY LOWER IN THE FOURTH QUARTER OF 1977, THE IMPLICATIONS FOR THE RATE OF CHANGE OF PRODUCTIVITY ARE NOT PARTICULARLY WELCOME. PUTTING THESE FIGURES INTO PERSPECTIVE, OVERALL EMPLOYMENT IN MANUFACTURING INCREASED BY ABOUT 0.7 PERCENT OVER THE PAST 12 MONTHS WHILE MANUFACTURING OUTPUT REMAINED VIRTUALLY UNCHANGED.

4. STERLING M3 (S.A.) GREW 1.0 PERCENT IN THE BANKING MONTH ENDED DECEMBER 14, COMPARED WITH 0.7 PERCENT THE PREVIOUS MONTH. THE MORE NARROWLY DEFINED MONETARY AGGREGATE M1 (S.A.) GREW BUT 0.8 PERCENT AFTER GROWING 1.6 PERCENT IN NOVEMBER. THE ANNUALIZED GROWTH RATE OF STERLING M3 (S.A.) SINCE THE FINANCIAL YEAR BEGAN IS 13.4 PERCENT WHILE THAT OF M1 (S.A.) IS 24.2 PERCENT. THE GROWTH OF STERLING M3 CONSEQUENTIALLY IS STILL OUTSIDE THE TARGET RANGE OF 9-13 PERCENT, ALTHOUGH FALLING TOWARD IT.

DOMESTIC CREDIT EXPANSION (I.E., DCE, S.A.) DURING THE DECEMBER BANKING MONTH TOTALED 95 MILLION POUNDS, OR 1,560 MILLION POUNDS SINCE THE FINANCIAL YEAR BEGAN. THIS LOW FIGURE RELATIVE TO THE 414 MILLION-POUND INCREASE IN STERLING M3 IS ACCOUNTED FOR BY CONTINUED INCREASES IN EXTERNAL AND FOREIGN CURRENCY FINANCE AND A SHARP INCREASE IN BANKS' NON-DEPOSIT LIABILITIES. THE BANK OF ENGLAND

BLIC FUNDS (FOR EXAMPLE, LOCAL AUTHORITIES) INVESTED IN THE INTERBANK MARKET (CITED IN LAST MONTH'S REPORT ON BANKING STATISTICS) WERE SWITCHED INTO TREASURY BILLS DECREASING NON-DEPOSIT LIABILITIES AND UNCLASSIFIED

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DCE.

MARKET SOURCES REPORT THAT FINANCIAL MARKETS ARE SATISFIED WITH THE DECEMBER STATISTICS. THE LEVEL OF M1'S INCREASE WAS SUPRISINGLY LOW, BANK LENDING TO THE PRIVATE SECTOR WAS RESTRAINED AND STERLING M3 GROWTH, ALTHOUGH LARGE, WAS MOVING BACK TOWARD THE TARGET RANGE.

THE FOLLOWING SUMMARIZES THE DECEMBER STATISTICS ON MONEY SUPPLY AND DOMESTIC CREDIT EXPANSION:

(SEASONALLY ADJUSTED, IN MILLIONS OF POUNDS)

	NOV.16	DEC.14
M1	21,900	22,070
STERLING M3	43,180	43600
M3	46,920	47,260
PUBLIC SECTOR BORROWING REQUIREMENT		
NET OF PURCHASES OF PUBLIC DEBT		
BY THE NON-BANK PRIVATE SECTOR	- 100	- 222
STERLING LENDING TO PRIVATE SECTOR	323	223
DOMESTIC CREDIT EXPANSION	264	95

DECREASE IN EXTERNAL AND FOREIGN

CURRENCY FINANCE	216	152
DECREASE IN NON-DEPOSIT LIABILITIES	- 194	167
CHANGE IN STERLING M3	286	414

5. FOREIGN EXCHANGE MARKETS WERE GENERALLY STABLE AND QUIET THIS WEEK. "ALMOST BORING, NOTHING TO YELL OR SHOUT ABOUT" WAS ONE DEALER'S SUMMATION. THERE WAS GOOD TWO-WAY COMMERCIAL BUSINESS ON LIGHT TO MODERATE VOLUME. THE MARKET HAS DIVIDED VIEWS ABOUT WHETHER OR NOT THE BANK OF ENGLAND INTERVENED TO HOLD THE RATE BELOW \$1.95. SOME DEALERS SAW THE POUND'S STRENGTH AS FAIRLY WIDE-SPREAD; OTHERS SAY IT REFLECTS DOLLAR WEAKNESS. THE RISE IN THE GOLD PRICE WAS THE MAJOR EVENT, ACCORDING TO DEALERS, STILL REFLECTING THE CURRENCY UPHEAVALS IN DECEMBER AND EARLIER THIS MONTH.

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6. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EOUALS 100)	GOLD (\$)
1/18	1.9245	65.8	171-7/8
1/19	1.9335	66.1	173-3/8
1/20	1.9325	66.1	173-1/8
1/23	1.9420	66.2	175-5/8
1/24	1.9470	66.3	176-3/8
CHANGE 1/17-1/24 UP 0.0230 UP 0.5 UP 3-1/2			

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7. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/18	0.05	0.28	0.60
1/19	0.13	0.35	0.70
1/20	0.15	0.35	0.72
1/23	0.10	0.38	0.77
1/24	0.08	0.35	0.71
CHANGE 1/17-1/24 DOWN 0.03 UP 0.05 UP 0.04			
(ALL FIGURES IN CENTS)			

8. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/18	6-3/4	7-1/4	7-3/4
1/19	7-1/8	7-3/8	7-1/2
1/20	7-3/8	7-3/8	7-5/8
1/23	7-1/8	7-3/8	7-3/4
1/24	7-1/8	7-3/8	7-5/8
CHANGE 1/17-1/24 DOWN 1/8 UNCHANGED DN. L/8			

9. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL	
DATE	
1/18	- 1
1/19	- 1-1/8
1/20	- 1-3/16
1/23	- 1-3/16
1/24	- 1-3/16
CHANGE 1/17-1/24 UP 5/16	

10. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
1/18	6-3/8	6-1/4	6-1/2

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1/19	6-5/16	6-5/32	6-7/16
1/20	6-1/4	6-1/16	6-5/16
1/23	6-7/32	6-3/64	6-1/4
1/24	6-17/64	6-1/16	6-11/32

CHANGE 1/17-1/24 DOWN 9/64 DOWN 5/32 DOWN 1/4

11. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON GOVERNMENT SECURITIES

DATE			
1/18	10.20	11.46	11.52
1/19	10.14	11.36	11.42
1/20	10.13	11.40	11.47
1/23	10.19	11.44	11.50
1/24	10.31	11.50	11.55

CHANGE 1/17-1/24 UP 0.03 DOWN 0.01 DOWN 0.02

12. THE MINIMUM LENDING RATE REMAINED 6-1/2 PERCENT FOLLOWING FRIDAY'S TREASURY BILL AUCTION. THE AVERAGE TREASURY BILL RATE FELL 0.0441 PERCENT TO 5.7747 PERCENT AT THE AUCTION AS THE 400 MILLION POUNDS IN BILLS TENDERED ATTRACTED 1,279.28 MILLION POUNDS IN BIDS. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE OFFERED AS 500 MILLION POUNDS MATURE.

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